

CITY OF WINTHROP

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY and OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2012

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City of Winthrop

Officials

Gerald Dennie	Mayor	Dec 2013
Jason Donlea	Mayor	Dec 2013
Fran Goedken	Mayor Pro tem	Dec 2013
Ann Myers	Council Member	Dec 2015
Leland Sprague	Council Member	Dec 2015
Lee White	Council Member	Dec 2015
Mary Ryan	City Clerk	
James Peters	Attorney	

City of Winthrop

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Winthrop, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Winthrop's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Winthrop as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2012 on our consideration of the City of Winthrop's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Winthrop's basic financial statements. Other supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility

of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Winthrop's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages I through VI and 18 through 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Ridgely, Fiedling, Lutter, Weber & Co., P.C.

October 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Winthrop provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities increased 2.8%, or approximately \$11,112 from fiscal year 2011 to fiscal year 2012. Property tax revenue increased approximately \$3,544 or 1.9% from fiscal year 2011 to fiscal year 2012.

The City's total disbursements increased 12.2%, or approximately \$60,610 in fiscal year 2012, from fiscal year 2011. Governmental Public Works spending increased approximately \$24,915. Governmental Capital Project disbursements increased approximately \$10,852.

The City's total cash basis net assets increased 1.90%, or approximately \$24,446, from July 01, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$11,519 and the assets of the business type activities increased by approximately \$12,927.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-Wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances; "Is the City as a whole better-off or worse-off as a result of the year's activities?" The Statement of Activities and Net Assets reports information, which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, sanitary sewer, and landfill/garbage system.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and landfill/garbage funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Winthrop's elected, appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy.

Tax revenues are expected to remain constant. The City will remain diligent in reviewing expenses to make sure they do not increase faster than revenues. In the upcoming year the City will look toward completing budgeted capital projects to reduce the reserve funds currently held. As the City's Water Plant and Sewer Lagoon System age, the City will monitor the rates and the ratio of reserves, to plan for major upgrades to the systems in the near future.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mary Ryan, City Clerk, 354 West Madison, Winthrop, Iowa.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliation between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased slightly from a year ago, from \$735,779 to \$747,298. The analysis that follows focuses on the changes in cash balances for governmental activities.

The City's total receipts for governmental activities increased by 2.8% or \$11,112. The increase in receipts was primarily the result of an increase in local option sales tax revenues. Local option sales tax revenues were up \$5,220 or 8.6%. The State's overall economy is directly linked to sales tax revenues. As the State's economy improves, the City is predicting an additional increase for 2013 in local option sales tax revenues.

The City did not increase property tax rates. The increase in revenue, \$3,544, in property tax receipts, is largely due to construction improvements and corresponding increased assessed values. It is estimated that property tax receipts will remain constant over the next few years. A property tax rate increase has not been discussed.

The cost of all governmental activities this year was \$395,416, an increase over 2011 of \$46,285 or 13.26%. There was an increase in expenditures in Public Works, \$24,915. The increase is attributable to a storm water drainage project, from the railroad to Jefferson Street. There was also an additional \$15,000 spent on concrete patching. The additional spending was budgeted as a means to reduce the amount of City reserve funds.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2012	2011
Receipts and transfers:		
Program Receipts:		
Charges for service	15,600	14,754
General Receipts:		
Property tax	188,532	184,988
Tax increment financing		
Local option sales tax	65,915	60,695
Licenses and permits	1,403	1,525
Intergovernmental	108,412	108,796
Investment Earnings	4,053	5,231
Loan proceeds		
Other general receipts	23,020	19,834
Transfers		
Total receipts and transfers	\$ 406,935	\$ 395,823
Disbursements:		
Public Safety	57,994	54,158
Public Works	129,471	104,556
Health and social services	500	500
Culture and recreation	81,338	73,731
Community and economic development	20,135	19,879
General government	51,697	50,493
Capital projects	54,281	43,429
Transfers		2,385
Total disbursements	\$ 395,416	\$ 349,131
Increase in cash basis net assets	11,519	46,692
Cash basis net assets beginning of year	735,779	689,087
Cash basis net assets end of year	\$747,298	\$ 735,779

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	61,755	60,560
Sewer	49,538	48,778
Landfill	57,423	49,758
Sales Tax	4,630	4,552
Penalties	2,051	2,071
Hook-up/Disconnect Fees	280	277
Other receipts:		
Deposits	600	400
Interest	408	619
Transfers-In		2,385
Total receipts	\$176,685	\$169,400
Disbursements		
Water	48,668	44,756
Sewer	57,382	46,165
Sewer (Capt. Project-TIF)		2,385
Landfill	57,708	56,127
Total disbursements	\$163,758	\$149,433
Increase (decrease) in cash balance	12,927	19,967
Cash basis net assets beginning of year	521,503	501,536
Cash basis net assets end of year	\$534,430	\$521,503

Total business type activities receipts for the fiscal year were \$176,685 compared to \$169,400 last year. There was a slight increase of \$7,285, or 4.3%. The increase is largely due in part to the residential garbage rate increase in March of 2012. There were no changes to the rates for water, and sewer services. The total customers, and gallons consumed, have remained stable.

The cash balance increased by approximately \$12,927 or 2.48%. The small increase in the cash balance is due to an offsetting increased expense from Waste Management for residential garbage pick-up. Since the closing of the Buchanan County Landfill, the landfill fund has primarily been a break-even fund. The funds collected on customer accounts are sent to a contracted service provider, for garbage and recycling services. The City expects no change in this policy for fiscal year 2013.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Winthrop completed the year, its governmental funds reported a combined fund balance of \$747,298 a increase of \$11,519 above last year's total of \$735,779. The following are the major reasons for the changes in fund balances of the major funds from the prior years.

The General Fund cash balance decreased slightly from \$616,814 in 2011, to \$602,551. This was a 2.3% decrease. The slight decrease is due to additional budgeted road projects.

The Road Use Tax Fund cash balance increased by \$25,782 to \$144,747 during the fiscal year. This increase was attributable to reserving of funds needed to purchase major equipment in the upcoming future.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$20,168 to \$335,455, due primarily to the consistent management of expenses, with no major improvements or expenses.

The Sewer Fund cash balance decreased by \$6,956 to \$194,901, due primarily to capital projects: storm sewer at park, and storm sewer along portion of 220th Street.

The Landfill Fund cash balance decreased \$285 to \$4,074, customer rates were increased to offset increase by Waste Management to the City.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. The City had sufficient cash balances to cover all expenditures.

DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$15,000 in revenue notes and long-term debt, compared to \$30,000 last year, as shown below.

Outstanding Debt at Year End		
	June 30,	
	2011	2012
Revenue notes (East Buchanan Telephone)	\$30,000	\$15,000
Total	\$30,000	\$15,000

City of Winthrop

Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2012

Functions / Programs:	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions, and Restricted Interest
Governmental activities:			
Public safety	\$ 57,994	2,018	19,276
Public works	129,471	-	86,719
Health and social services	500	-	-
Culture and recreation	81,338	15,600	17,053
Community and economic development	20,135	-	-
General government	51,697	-	1,712
Debt service	-	-	-
Capital projects	54,281	-	-
Enterprise	-	-	-
Total governmental activities	395,416	17,618	124,760
Business type activities:			
Water	48,668	68,236	-
Sewer	57,382	50,018	-
Landfill	57,708	57,423	-
Total business type activities	163,758	175,677	-
Total	\$ 559,174	193,295	124,760
General Receipts:			
Property tax levied for:			
General purposes			
Local option sales tax			
Other taxes			
Unrestricted interest			
Miscellaneous			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year, as restated			
Cash basis net assets end of year			
Cash Basis Net Assets			
Unrestricted			
Total cash basis net assets			

See notes to financial statements

EXHIBIT A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
-	(36,700)	-	(36,700)
-	(42,752)	-	(42,752)
-	(500)	-	(500)
-	(48,685)	-	(48,685)
-	(20,135)	-	(20,135)
-	(49,985)	-	(49,985)
-	-	-	-
-	(54,281)	-	(54,281)
-	-	-	-
-	(253,038)	-	(253,038)
-	-	19,568	19,568
-	-	(7,364)	(7,364)
-	-	(285)	(285)
-	-	11,919	11,919
-	(253,038)	11,919	(241,119)
	188,532	-	188,532
	65,915	-	65,915
	10,077	-	10,077
	-	408	408
	33	600	633
	264,557	1,008	265,565
	11,519	12,927	24,446
	735,779	521,503	1,257,282
	\$ 747,298	534,430	1,281,728
	\$ 747,298	534,430	1,281,728
	\$ 747,298	534,430	1,281,728

City of Winthrop

EXHIBIT B

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2012

	Major Fund General	Major Fund RUT	Total
Receipts:			
Property tax	\$ 188,532	-	188,532
Other city tax	65,915	-	65,915
Licenses and permits	1,403	-	1,403
Use of money and property	4,053	-	4,053
Intergovernmental	21,693	86,719	108,412
Charges for service	15,598	-	15,598
Miscellaneous	23,022	-	23,022
Total receipts	320,216	86,719	406,935
Disbursements:			
Operating:			
Public safety	57,994	-	57,994
Public works	68,534	60,937	129,471
Health and social services	500	-	500
Culture and recreation	81,338	-	81,338
Community and economic development	20,135	-	20,135
General government	51,697	-	51,697
Debt service	-	-	-
Capital projects	54,281	-	54,281
Enterprise	-	-	-
Total disbursements	334,479	60,937	395,416
Net change in cash balances	(14,263)	25,782	11,519
Cash balances beginning of year	616,814	118,965	735,779
Cash balances end of year	\$ 602,551	144,747	747,298
Cash Basis Fund Balances			
Unrestricted:			
General fund	\$ 602,551	-	602,551
Special revenue funds	-	144,747	144,747
Total cash basis fund balances	\$ 602,551	144,747	747,298

See notes to financial statements

City of Winthrop

EXHIBIT C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2012

Total governmental funds cash balances (page 16)	\$ 747,298
The city does not have an internal service fund. Therefore there are no reconciling items.	<u>-</u>
Cash basis net assets of governmental activities (page 15)	<u>\$ 747,298</u>
Net change in cash balances (page 16)	\$ 11,519
The city does not have an internal service fund. Therefore there are no reconciling items.	<u>-</u>
Change in cash balance of governmental activities (page 15)	<u>\$ 11,519</u>
See notes to financial statements	

City of Winthrop

EXHIBIT D

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise Funds			Total
	Water	Sewer	Landfill	
Operating receipts:				
Use of money and property	\$ 600	408	-	1,008
Charges for service	68,236	50,018	57,423	175,677
Total operating receipts	68,836	50,426	57,423	176,685
Operating disbursements:				
Business type activities	48,668	57,382	57,708	163,758
Total operating disbursements	48,668	57,382	57,708	163,758
Net change in cash balances	20,168	(6,956)	(285)	12,927
Cash balances beginning of year	315,287	201,857	4,359	521,503
Cash balances end of year	\$ 335,455	194,901	4,074	534,430
Cash Basis Fund Balances				
Unreserved	\$ 335,455	194,901	4,074	534,430
Total cash basis fund balances	\$ 335,455	194,901	4,074	534,430

See notes to financial statements

City of Winthrop

SCHEDULE E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2012

Total enterprise funds cash balances (page 18)	\$ 534,430
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Cash basis net assets of business type activities (page 15)	\$ 534,430
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\$ 534,430

Net change in cash balances (page 18)	\$ 12,927
--	------------------

\$ 12,927

The city does not have an internal service fund.
Therefore there are no reconciling items.

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Change in cash balance of business type activities (page 15)	\$ 12,927
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\$ 12,927

See notes to financial statements

City of Winthrop

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Winthrop is a political subdivision of the State of Iowa located in Buchanan County. It was first incorporated in 1886 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Winthrop has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions:

County Landfill Commission, County Sheriff's Protection, agreement with East Buchanan School District for ground lease, Buchanan County 911 Board, and Buchanan County Economic Development Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund (#110) is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Landfill Fund accounts for the operation and maintenance of the City's landfill system.

C. Measurement Focus and Basis of Accounting

The City of Winthrop maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable-Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted-Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state, or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned-Amounts the Council intends to use for specific purposes.

Unassigned-All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012 the City did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of

the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2012, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

Interest rate risk-The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days and meet their definition of *Instruments Eligible for Investment*. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Debt

The City has a Promissory Note dated August 27, 2003 with the East Buchanan Telephone Cooperative (EBTC) for \$150,000. This is a no interest loan with annual installment payments of \$15,000, with first payment December 1, 2003 and on December 1 of each subsequent year thereafter. The final payment is scheduled to be December 1, 2012. The City has the right to prepay the note at any time without penalty. The City paid \$15,000 during the year. Balance at June 30, 2012 was \$15,000.

(4) Pension and Retirement Benefits

Iowa Public Employees Retirement System-

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012 was \$7,530, equal to the required contributions for the year.

(5) Other Postemployment Benefits (OPEB)

Plan Description-The City contributed \$900 per quarter for a single-employee medical benefit plan. During the year ended the City had only one employee that it paid into the plan for. Due to timing the City only paid \$2,700 for the year ended June 30, 2012.

(6) Compensated Absences

City of Winthrop employees accumulate vacation hours for subsequent use in the current year only. Sick leave hours are allowed to be carried over from year to year up to a maximum of 24 weeks. The City tracks sick leave and vacation on a calendar year basis. Neither vacation or sick leave is payable upon termination, retirement or death.

(7) Interfund Transfers

There were no inter-fund transfers during the year.

(8) Related Party Transactions

No business transactions between the City and City employees during the year ended June 30, 2012 were noted.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Balance

The City had no funds with deficit balances at June 30, 2012.

(11) Litigation

There is no pending litigation pending involving the City of Winthrop.

(12) Subsequent Events

Subsequent events were considered by the City through October 26, 2012, date of this audit, and no events were noted that they believe needed to be noted.

City of Winthrop

Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances-
Budget and Actual (Cash Basis)-
All Governmental Funds and Proprietary Funds-
Required Supplementary Information
Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 188,532	-
Other city tax	65,915	-
Licenses and permits	1,403	-
Use of money and property	4,053	1,008
Intergovernmental	108,412	-
Charges for services	15,598	175,677
Miscellaneous	23,022	-
Total Receipts	406,935	176,685
Disbursements:		
Public Safety	57,994	-
Public Works	129,471	-
Health and Social Services	500	-
Culture and Recreation	81,338	-
Community and Economic Development	20,135	-
General Government	51,697	-
Debt Service	-	-
Capital Projects	54,281	-
Business type activities	-	163,758
Total Disbursements	395,416	163,758
Excess (deficiency) of receipts over (under) disbursements	11,519	12,927
Other financing sources (uses):		
Net	11,519	12,927
Balance, beginning of year	735,779	521,503
Balance, end of year	\$ 747,298	534,430

See accompanying independent auditor's report

Less Funds not Required to be Budgeted	Net	Budgeted Amounts Original Final	Final to Net Variance
-	188,532	184,739	3,793
-	65,915	62,122	3,793
-	1,403	1,090	313
-	5,061	5,000	61
-	108,412	751,415	(643,003)
-	191,275	194,100	(2,825)
-	23,022	88,000	(64,978)
-	583,620	1,286,466	(702,846)
-	57,994	165,306	107,312
-	129,471	187,000	57,529
-	500	500	-
-	81,338	109,448	28,110
-	20,135	50,101	29,966
-	51,697	60,212	8,515
-	-	-	-
-	54,281	796,000	741,719
-	163,758	201,000	37,242
-	559,174	1,569,567	1,010,393
-	24,446	(283,101)	307,547
-	-	-	-
-	24,446	(283,101)	307,547
	1,257,282	936,823	198,416
-	1,281,728	653,722	505,963

City of Winthrop

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2012

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The budget was not amended during the year.

Other Supplementary Information

City of Winthrop

Statement of Indebtness
Year Ended June 30, 2012

	Promissory Note <u>E. Buchanan Telephone Company</u>
Date of Issue	<u>8-27-2003</u>
Interest Rates	<u>0%</u>
Amount Originally Issued	<u>\$ 150,000</u>
Balance Beginning of Year	\$ 30,000
Issued During Year	-
Redeemed During Year	<u>15,000</u>
Balance End of Year	<u>\$ 15,000</u>
Interest Paid	<u>-</u>
Interest Due and Unpaid	<u>-</u>

See accompanying independent auditor's report

City of Winthrop

Note Maturity
Year Ended June 30, 2012

Year Ended June 30,	Promissory Note	
	E. Buchanan Telephone Company	
2013	\$	15,000
2014		-
	\$	15,000

See accompanying independent auditor's report

City of Winthrop

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Winthrop, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 26, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Winthrop is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Winthrop's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Winthrop's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Winthrop's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material statement of the City of Winthrop's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as II-A-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with

governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-12 to be a significant deficiency.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Winthrop's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the city's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Winthrop's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit Winthrop's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the city of Winthrop and other parties to whom Winthrop may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Winthrop during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

October 26, 2012

City of Winthrop

City of Winthrop

Schedule of Findings and Questioned Costs

June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statement.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, preparation of bank deposits, preparation and approval of journal entries, posting of claims, and the reconciliation of the bank are all done by one individual.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its controls procedures in an attempt to maximum internal control where possible under the circumstances.

Conclusion – Response accepted.

II-B-12 Significant Deficiency – The City of Winthrop, Iowa prepares financial statements, but does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Management Response – Management feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the

size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

- II-C-12 Credit Card Policy-The City has credit cards and they have a verbal policy on the use of those credit cards.

Recommendation-We recommend that the credit card policy be in writing so as to avoid any confusion as to their usage.

Response-The City will adopt a written credit card policy.

Conclusion-Response accepted.

- II-D-12 Bank Signature Cards-The City had a non-employee listed as an authorized check signer.

Recommendation-Have bank signature cards updated to reflect appropriate officials.

Response-The City will establish new bank signature cards.

Conclusion-Response accepted.

INSTANCES OF NON-COMPLIANCE

Part III: Findings and Questioned Costs for Federal Awards:

There were no findings and questioned costs for federal awards.

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-12 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2012.

Recommendation-The City should monitor balances in their financial institutions so as not to exceed the Depository Resolution amounts and amend its Depository Resolution when necessary.

Response-The City will monitor balances in their financial institutions in the future to prevent exceeding Depository Resolution amounts and amend the Depository Resolution when necessary.

Conclusion-Response accepted.

- IV-B-12 Certified Budget – City disbursements did not exceed budgeted amounts during the year ended June 30, 2012.

- IV-C-12 Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-D-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-12 Business Transactions – No business transactions between the City and City officials or employees were noted during the year.
- IV-F-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-H-12 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

City of Winthrop
Year Ended June 30, 2012

Staff

This audit was performed by:

Donald A. Snitker, CPA, Audit Partner

James Remington, Staff